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TAGS: EFIN ECON PREL ETRD SI
SUBJECT: NO IMMINENT FINANCIAL CRISIS IN SLOVENIA, BUT WARY OF RECESSION

REF: A. A: 22 OCTOBER JKESSLER EMAIL TASKING
¶B. B: LJUBLJANA 482

Classified By: Amb. Yousif B. Ghafari, reasons 1.4(b,d)

Summary

¶1. (U) Per ref A tasking, this message provides an initial read on Slovenia and the financial crisis, including financial conditions, the longer macroeconomic outlook, government actions in response to the crisis, expected domestic impact and possible effects on U.S.-Slovenian relations. The numerous people with whom EmbOffs talked all agreed that there is no banking crisis in Slovenian now or in the near future, but there is a real danger of a recession due to spillover effect from other EU countries. End Summary.

Financial Conditions: No Banking Crisis, but Confidence Index Dropping

¶2. (U) In recent discussions with EmbOffs, financial analysts and business people dismissed the idea of a "meltdown" in the Slovenian financial system. They explained that the Slovenian banking sector is relatively unchanged since the late 1980's: limited to offering more traditional business and individual savings and loan services. The newer credit default swaps and such credit derivative markets are unknown here. Additionally, Slovenian banks have remained very conservative in their loans, and sub-prime lending for real-estate does not exist.

¶3. (U) Professor of Economics Joze Mencinger, Vice Prime Minister of the first Slovenian government, commented to the media that the Slovenian financial system is not under great pressure since its banking system is mainly in domestic hands and there is no structural deficit, unlike other Eastern European economies. He noted, however, that Slovenia,s current account deficit has increased to 4.9% of GDP over the past 3 years. While predicting that Slovenia would not experience a significant financial crisis, Mencinger warned that there could be negative effects on the broader economy.

¶4. (U) Despite the soundness of the banking sector, consumer confidence is down by 6 percentage points over last year,s average, with the manufacturing confidence index down 25 points compared to October 2007. Recession fears are driving down Slovenia,s small stock market. On 27 October, it fell below 5,000 for the first time in 29 months. (Note: The Slovenian market has experienced an incredible bubble, almost tripling between September 2005 (5,603) and September 2007 (12,092). At its peak, the stock market had inflated by a factor of 10 over 10 years.) Large-scale manufacturing exporters are especially hard hit now, as well as Luka Koper, Slovenia,s only maritime port operator, whose stock price fell more than 10% on 27 October. Recent matter-of-fact news articles have advised Slovenes not to panic, but to consider buying stocks now that the prices are lower.

Longer term macroeconomic effects: Recession Fears

5 (U) Recession fears loom large amongst the business community and private individuals. The Central Bank has revised GDP growth estimates downward because of decreased economic activity in the EU. While the estimates remain over 4% for 2008, in 2009 growth may decline significantly due to

an economic downturn in other EU countries. The EU accounts for 71% of Slovenia,s exports. Business leaders from a variety of industries told EmbOffs that they strongly believe a recession is coming, led by reduced demand from Germany (which lone accounts for 19% of Slovenia,s exports), espcially in the automotive (including Tier 1 and Tie 2 suppliers) and textile industries. Additionaly, GDP growth may be affected by the conclusionin 2009 of several large construction projects. The Secretary General of the Association of Sloveian Employers, Joze Smole, told the press that oders in the automotive, textile and constructionindustries have already fallen by 10%.

¶6. (SBU)According to 27 October news reports, the Institut for Macroeconomic Analysis and Development said hat the downturn will hit export-oriented and laor-intensive sectors the hardest. The Institute predicts that 8,000 jobs ill be cut in manufacturing, 5,000 in construction and 500 in retail. However, the predicted job losses may not significantly negatively impact Slovenia,s economy. Slovenia,s standardized rate of unemployment has been falling steadily from 6.7% in 2003 to 4.8% in 2008. Marko Jare, Director of the America Desk at the Slovenian Chamber

of Commerce, noted to EmbOffs recently that attracting new investments to Slovenia is difficult because the labor force is too tight to open new large businesses.

¶7. (U) Automotive companies are already feeling the pinch. Revoz (owned by Renault) publicly announced on 24 September that it will cut back from three shifts per day to two and a half. Adria Mobil (a camping trailer manufacturer) will start a new schedule of work for three weeks, and then take one week off. Revoz, Adria Mobil, and Elan (ski and boat manufacturer) have all announced cutbacks, but to avoid laying-off permanent workers they will cut primarily temporary and seasonal jobs, student workers, and not renew short-term contracts.

¶8. (SBU) But not all business leaders here are worried. Joc Pececnik, a successful and ambitious Slovenian entrepreneur (and now one of the top five richest individuals in Slovenia,) dismissed concerns about the lack of credit to EmbOffs: "The right projects will always get money."

Actions taken: Government Focus

¶9. (C) Outgoing PM Jansa told Ambassador on 23 October that until the new government takes over, his government is focused on the financial crisis. (reftel B). On 8 October, in coordination with the EU, the GoS announced an unlimited guarantee on individual deposits. Post has not heard any Slovenes express concern that the guarantee is risky to the GoS.

¶10. (C) On 22 October, the Central Bank and the Ministry of Finance agreed to three measures - if needed. Proposed changes to the law would allow the state to:
-- Guarantee up to 8B Euros to banks for inter-bank loans;
-- Provide loans to banks, "savings houses," insurance companies, and pension funds; and
-- Intervene with investments in banking institutions.
The President of the National Assembly, Pavel Gantar, toldthe Ambassador on 29 October that he expected the Parliament would adopt some measures in the near future. They will last until 31 December, 2009 - by which time the GoS predicts that any financial crisis in Slovenia will be over.

¶11. (U) France Krizanic, putative next Minister of Finance, said in a press briefing on 23 October that state intervention is unlikely to become necessary. He tried to reassure the public that if the state does have to step in and buy loans from the banks, it will make a profit. Krizanic also publicly doubted that the new government would revise the 2009 budget because when it was drafted 18 months ago, it factored in lower growth rates than actually have been achieved since that time.

Political and Economic Implications

¶12. (C) The relative isolation of the Slovenian financial system will cushion the economic impact of the global crisis. Slovenia,s biggest threat now comes from recession in

neighboring EU countries. Former Director of the Central Bank, Mitja Gaspari, who is slated to be a major player in economics in the new government, told EmbOffs on 24 October that Slovenia will suffer from the spillover. "A recession is coming, but the people are still unaware of the magnitude. Hopefully it will be less here than in other countries.... The future here depends on whether the large infusion of dollars into the global economy works."

Comment: Consequences for Bilateral Relations Negligible
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¶13. (C) The current situation and expected developments in the next six months should not affect bilateral relations. The global financial crisis is front page news every day in Slovenia, but so far the reporting has focused on international news. No media outlets or individual contacts have indicated negative sentiments towards the U.S. for being the first country to fall into crisis. Slovenia is much more concerned about the EU recession than anything that has or will happen financially in the U.S. Both the private and public sector are expressing angst about the looming recession and how it will really affect the economy and the state budget.
GHAFARI